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CEDAM
COMMUNITY ECONOMIC DEVELOPMENT ASSOCIATION OF MICHIGAN
UNITING PARTNERS TO REBUILD OUR COMMUNITIES

March 17, 2012

TO: State Senator Judy Emmons
CC: Members of the Senate Committee on Families, Seniors and Human Servicess

RE: The asset test proposed in House Bill 5033

Dear Senator Emmons:

I am writing in opposition to the part of House Bill 5033 that would require an asset test for the Food Assistance Program (FAP) administered by Michigan's Department of Human Services (DHS). Instead of encouraging families to achieve self-sufficiency and promoting positive financial behaviors and economic security, asset limits force families to forfeit long-term savings and economic self-sufficiency in order to receive vital short-term assistance. Moreover, in addition to prolonging the financial insecurity of Michigan families, asset tests unnecessarily increase administrative costs to the state, in both time and money, that could otherwise go to improving efficiency in service.

I am the director of the Asset Building Policy Project (ABPP) at the Community Economic Development Association of Michigan (CEDAM). The ABPP at CEDAM works to decrease asset poverty[1] in Michigan by helping families achieve sustainable financial security through saving and building assets. Through the work of CEDAM members, we know first-hand that few people have ever spent their way out of poverty. Those Michigan families that have escaped the generational cycle of poverty have done so through savings and investing in long-term financial assets and goals. Safety net policies like FAP should help families overcome temporary difficult economic times and encourage sustainable economic self-reliance -- asset tests do the opposite.

Rather than encourage self-sufficiency, assets limits discourage savings among recipients or force recently un- and underemployed families to deplete their emergency savings for temporary assistance. This can both perpetuate and create new generations of Michigan families and children living paycheck to paycheck or in poverty, and result in families spending a longer time receiving government assistance.

Thirty-seven states have eliminated asset limits[2] for food assistance because of the growing recognition that while income and income supports like FAP will help a family get by during tough financial times, only assets and savings will help families get ahead and build lasting economic security. This recognition has also led to a growing number of states and communities supporting other asset building policies and strategies that address liquid asset poverty, a lack of liquid savings necessary to live at the poverty line for three months without any income, and economically empower individuals and families.[3]

As of October, 1, 2011, DHS implemented an asset limit of $5,000. This means that a family of four must deplete their savings to below the asset poverty threshold in order to receive any FAP benefit. This not only sends send the wrong message -- that having assets and savings is a bad thing – it hinders the ability to achieve financial security for the future. This is not a message Michigan should send, or a financial position we should encourage if the purpose of DHS and its programs and policies is to instill financial self-sufficiency and economic independence.

[1] Asset Poverty a lack of liquid assets or savings necessary for a person or family to live above the poverty line for three months without any income. In 2011 the asset poverty threshold for a family of four is $5588 in savings.
[2] CFED Policy Brief (http://assetsandopportunity.org/scorecard/assets/pb_AssetLimits.pdf), January, 2012
[3] For more on this movement, see www.cfecoalition.org

Putting aside the above arguments, asset limits are also an issue of government efficiency and the responsible use of taxpayer dollars. The asset test proposed in HB 5033 will have a negative impact on Michigan's General Fund General Purpose budget. While the cost of the FAP benefits is entirely covered with federal funds, the cost of administering the program is split 50/50 between the state and the federal government. This change requires caseworkers to verify the assets of roughly 927,000 cases or two million recipients. Considering DHS's estimated number of total cases that will be closed[4], this policy is costly, time consuming and inefficient considering the relatively small impact on case closure. Moreover, DHS as yet to provide an estimate of the cost of the new asset test to Michigan taxpayers which could very well exceed $18 million on an ongoing, annual basis. [5]

It often takes years to realize the positive return on investment in state spending on social services and human capital, but that is not the case here. Eliminating asset limits would have an immediate and positive impact on both the state budget and the roughly two million Michigan residents who rely on the FAP program to help them get through their current economic and financial insecurity. That is why, on behalf of CEDAM, our members and the families they serve, I ask that you amend House Bill 5033 by removing the requirement for an asset test.

As you and members of the Michigan Senate consider House Bill 5033 and other issues related to family self-sufficiency and economic security, I encourage you to consider how policies like asset limits create unintended barriers to financial empowerment and independence. Please do not hesitate to contact me if you have any questions or require any additional information.

Sincerely,

Ross H

Ross H. Yednock
Director, Asset Building Policy Project

The Community Economic Development Association of Michigan (CEDAM), a nonprofit organization, represents hundreds of organizations and individuals committed to rebuilding our neighborhoods and revitalizing communities throughout Michigan. CEDAM is a membership association of primarily nonprofit community development corporations (CDCs), community action agencies, and other nonprofits that provide affordable and supportive housing to our most vulnerable citizens, encourage downtown and commercial corridor revitalization, provide workforce and entrepreneurship training and help families develop and maintain assets. For more information about CEDAM, please visit www.cedam.info.

[4] DHS released a document on September 28, 2011 stating that 15,000 (out of roughly 927,000) FAP cases will be closed. This is equal to 1.6%.

[5] In January 2012 there were 927,375 FAP cases. Assuming assets must be verified for each case and the total time spent verifying assets is one hour, then the initial cost to the state will be $18,946,271 (927,375 x the median hourly rate of a DHS Eligibility Specialist).

POLICY BRIEF:
LIFTING ASSET LIMITS IN PUBLIC BENEFIT PROGRAMS

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OVERVIEW

Many public benefit programs – such as cash welfare and Medicaid – limit eligibility to those with few or no assets. If individuals or families have assets exceeding the state's limit, they must "spend down" longer-term savings in order to receive what is often short-term public assistance. These asset limits, which were originally created to ensure that public resources did not go to "asset-rich" individuals, are a relic of entitlement policies that in some cases no longer exist. Cash welfare programs, for example, now focus on quickly moving individuals and families to self-sufficiency, rather than allowing them to receive benefits indefinitely. Personal savings and assets are precisely the kinds of resources that allow people to move off public benefit programs. Yet, asset limits can discourage anyone considering or receiving public benefits from saving for the future.

WHAT STATES CAN DO

States determine many key policies related to families receiving benefits. States have discretion in setting or eliminating asset limits for Temporary Assistance to Needy Families (TANF), Medicaid, the Children's Health Insurance Program (CHIP)[1] and the Supplemental Nutrition Assistance Program (SNAP, formerly known as Food Stamps).[2]

Program	Asset Limits	What States Can Do
TANF	$2,000-$3,000 in most states	▪ Eliminate limits entirely, as five states have done ▪ Substantially increase limits so they do not affect most recipients ▪ Exclude classes of assets, such as individual development, retirement or college savings accounts
Family Medicaid[3]	$1,000-$30,000 in states that have limits	▪ Eliminate limits entirely, as 24 states have done and all states must do by 2014 ▪ Substantially increase limits so they do not affect most recipients ▪ Exclude classes of assets, such as individual development, retirement or college savings accounts
SNAP	$2,000 ($3,000 if disabled or elderly household member) - $25,000 in states that have limits	▪ Eliminate limits entirely, as 37 states have done ▪ Substantially increase limits so they do not affect most recipients[4]

1 Only Missouri and Texas have asset limits in their Children's Health Insurance Program; the limit in Texas is $10,000 and the limit in Missouri is $250,000.

2 Stacy Dean, *2002 Federal IDA Briefing Book: How IDAs Affect Eligibility for Federal Programs: The SNAP Program* (Washington, DC: CFED and the Center on Budget and Policy Priorities, 2002).

3 Family Medicaid serves both children and their parents.

4 Federal law already exempts many important classes of assets in the SNAP program, including retirement accounts and education savings accounts.

ELEMENTS OF A STRONG POLICY

The best option: Based on extensive research by many national and state organizations,[5] CFED considers a state's asset limit policy strong if it has eliminated asset limits in TANF, Medicaid and SNAP.

Incremental improvements: The existence of an asset limit, no matter how high, sends a signal to program applicants and participants that they should not save or build assets. However, if a state has not yet eliminated asset limits entirely, it can take several intermediate steps to mitigate the disincentive to save.

- States can increase asset limits and/or index them to inflation, thereby reducing the likelihood that participants or applicants will reach the limit.
- States can exempt certain classes of assets from their asset tests in the TANF and Medicaid programs. While most programs exclude some "illiquid" assets, such as a home or defined benefit pension, many other liquid holdings, such as defined contribution retirement accounts (e.g., 401(k)s), health savings accounts, education savings accounts (529s and Coverdells) or individual development accounts, often count against the asset limits. States should exempt these types of assets. In addition, vehicles, which are vital for many to find and maintain employment, should be exempted.[6] States should also exempt Earned Income Tax Credit refunds for at least a year to provide a buffer for emergencies and unexpected expenses.[7]

WHAT STATES HAVE DONE

Twenty-four states have eliminated Family Medicaid asset limits, five states have eliminated TANF asset limits and 37 states have eliminated SNAP asset limits. Three states have substantially increased the asset limits in their Medicaid or TANF programs, and 37 states have excluded important categories of assets from these limits in one or both programs.

Evidence from states that have eliminated asset limits suggests that the administrative cost savings outweigh any real or potential increases in caseload. For instance, eliminating Medicaid asset limits in Oklahoma resulted in administrative cost savings of close to $1 million.[8] In Ohio and Virginia, the "early adopters" of TANF asset limit elimination, caseloads decreased in the years following the change.[9] Similarly, in Louisiana, where the asset test in TANF was eliminated in 2009, there has not been a significant increase in caseload. A number of states, such as Oregon, that raised or eliminated their vehicle asset tests found that doing so had a negligible effect on caseload.[10]

5 CFED, the Center on Budget and Policy Priorities, the Center for Law and Social Policy, the New America Foundation, the Urban Institute and the Sargent Shriver National Center on Poverty Law and others have all examined this issue.

6 If eliminating all vehicles as assets is not feasible, then states could consider eliminating at least one vehicle for each working member of a household.

7 Leslie Parrish, *To Save, or Not to Save? Reforming Asset Limits in Public Assistance Programs to Encourage Low-income Americans to Save and Build Assets* (Washington, DC: New America Foundation, 2005).

8 Ibid., 7.

9 Ibid., 7.

10 TANF Caseload Reduction Report (Salem: Oregon Department of Human Services, 2010).

For more information on this policy measure, Lifting Asset Limits in Public Benefit Programs, and more, go to http://scorecard.cfed.org.

In the *Assets & Opportunity Scorecard*, the 50 states and the District of Columbia were rated on their policies to eliminate asset limits. The ratings were based on the criterion described above.